Universidad de los Andes
Facultad de Economía

INDUSTRIAL ORGANIZATION
ECON-3672
2017-20
HERNÁN VALLEJO

Basic Information

Lecturer: Hernán Vallejo (hvallejo@uniandes.edu.co)

Class Schedule: Tuesday from 03:30 p.m. to 04:50 p.m. (AU-301)

Thursday from 03:30 p.m. to 04:50 p.m. (AU-301)

Office Hours: Wednesday from 3:30 p.m. to 4:50 p.m. or with previous appointment.

Assistant: Carlos Andrés Camelo (ca.camelo10@uniandes.edu.co)

1 Objectives

This course introduces the fundamental concepts of the theory of industrial organization, to study specific aspects of market structures and the roles of dominant firms, marginal firms and information technology. The course also covers key features of the behavior of the firms including price discrimination, horizontal and vertical product differentiation, bundling, advertising, and research and development. Finally, the course focuses on policy theory and practice, including regulation, competition policy, trade policy and industrial policy both in Colombia and abroad. The course considers both theory and evidence, uses case studies and explores well known debates on industrial organization.

The course lectures and materials will be provided in English, but students will be allowed to hand their written work in either English or Spanish.

2 References

2.1 Textbook:

Carlton, D. y J. Perloff (2004) “Modern Industrial Organization”, Fourth Edition, Addison Wesley.

2.2 Other References on Industrial Organization:

Cabral, L. (2000). “Introduction to Industrial Organization”, MIT Press.

Shy, O (1996), “Industrial Organization: Theory and Applications”, MIT Press.

Williamson, O. E. (1990) “Industrial Organization”, Edward Elgar.

2.3 Advanced References on Industrial Organization:

Tirole, J. (1988) “The Theory of Industrial Organization”, MIT Press.

2.4 Articles and Academic Papers:

Hausman, R. y D. Rodrik. (2006). “Doomed to Choose: Industrial Policy as a Predicament” Harvard University mimeo. `http://ksghome.harvard.edu/~drodrik/doomed.pdf`

Vallejo, H. (2007) “A generalized index of market power” en Revista de Economía del Rosario, Vol. 10, No. 1, July. `http://econpapers.repec.org/article/col000151/004422.htm`

Vallejo, H. (2006) “A Theory of Natural Market Structures: Regulation, RD, FDI, International Trade and a few Curiosities” Documento CEDE 2006-09. `http://econpapers.repec.org/paper/col000089/001936.htm`.

2.5 Videos

Bauman, Yoran (2011) “Principles of economics, translated” (`https://www.youtube.com/watch?v=7u6Os0TDR6o`).

Steel, C. (2009) “How food shapes our cities” (`http://www.ted.com/talks/carolyn_steel_how_food_shapes_our_cities`)

Schwartz, Barry (2005), “The paradox of choice” TEDGlobal 19:37, filmed July (`www.ted.com/talks/barry_schwartz_on_the_paradox_of_choice`)

3 Contents

3.1 Introduction

<u>August 8:</u> Course syllabus and class rules

<u>August 10:</u> Introduction to Industrial Organization (CP Chap. 1).

3.2 Topics on Market Structure

<u>August 15:</u> Topics on the Theory of the Firm (CP Chap. 2)*.

<u>August 17:</u> Topics on the Theory of the Firm (CP Chap. 2).

<u>August 22:</u> Topics on Perfect Competition (CP Chap. 3).

<u>Problem Set 1:</u> Topics on the Theory of the Firm

<u>August 29:</u> Topics on Monopolies, Monopsonies and Dominant Firms (CP Chap. 4).

Problem Set 2 Topics on Perfect Competition

August 31: Topics on Monopolies, Monopsonies and Dominant Firms (CP Chap. 4).

September 5: Topics on Cartels (CP Chap. 5)*•.

September 7: Topics on Oligopoly (CP Chap. 6).

September 12: Topics on Monopolistic Competition (CP Chap. 7)*.

Problem Set 3: Topics on Monopoly and Oligopoly

September 14: Generalized Partial Equilibrium Model (Vallejo y CP Chap. 8).

September 19: Generalized Partial Equilibrium Model (Vallejo y CP Chap. 8).

September 21: First Partial Evaluation

September 26: Correction of First Partial Evaluation.

Problem Set 4: Topics on Monopolistic Competition

September 28: Student's Day

October 2 to 6: Academic Recess.

3.3 Business Practices: Strategies and Conduct

October 10: Price Discrimination (CP Chap. 9).

Problem Set 5: Price Discrimination

October 12: Fusions, Acquisitions and Restrictions (CP Chap. 12)*•.

October 17: Advertising and Revelation (CP Chap. 14)*.

Problem Set 6: Advertising

October 19: Information Technology (CP Chap. 15)*•.

October 24: Research and Development (CP Chap. 16).

Problem Set 7: Information Technology and Technological Change

October 26: Micro Fundamentals of Price Rigidities (CP Chap. 17)*.

3.4 Industrial Organization Policy: Theory and Practice

October 31: Regulation and Deregulation (CP Chap. 20)*•.

November 2: Anti-Trust Policy and Competition Law (CP Chap. 19)*.

November 7: Industrial Policy (Hausman y Rodrik)

November 9: International Trade Policy (CP Chap. 18).

November 14: Industrial Policy in Colombia and Abroad (Hausman y Rodrik)*•.

Problem Set 8: Competition and Industrial Policy

November 16: Debates on Policy and Industrial Organization

November 21: Second Partial Evaluation

November 23: Correction of the Second Partial Evaluation.

Important Dates:

September 21: First Partial Evaluation

September 26: Correction of First Partial Evaluation

October 6: Due date to deliver the 30% of the grade

October 13: Last day to retire from courses

October 2 to 6: Academic Recess

November 21: Second Partial Evaluation

November 23: Correction of Second Partial Evaluation

November 25: Last day of classes

Note: The date of the final exam will be determined by the Register Office of the University. Without exception, that date will not be modified.

4 Methodology

There will be two one hour and a half theory classes with the lecturer each week, and eight one hour and a half problem set sessions throughout the semester. Concepts, models and basic instruments will be introduced in the classes, while problems and exercises on the material covered will be solved in the problem set sessions.

5 Competencies

In this course several competencies are applied and developed, among which, the following can be highlighted:

a *The simplifying role of formalization:* the course makes intensive use of formal modelling in different economic contexts, including perfect and imperfect competition, partial and general equilibrium, and economic theory and economic policy.

b *Recognizing the role of Government:* More than a third of the course will be dedicated to the study of trade policy and its applications, and to the analysis of the areas in which Government intervention can be beneficial or not, from the welfare point of view.

c *Developing a critical mind:* This course deals with hotly debated topics and tries to stimulate the development of critical thinking, making emphasis on the strengths and weaknesses of the economic models, the news and the public opinions on international trade. One session will be devoted to discuss topics that generate heated debates on international trade, presenting the arguments for and against on each subject.

6 Evaluation System

The grades of this course will be obtained from 2 partial evaluations, a final exam, quizzes and debates. For the debates, the class will be divided in groups that should defend or refute a claim about industrial organization. There will also be ten quizzes at the beginning of the corresponding lectures signaled with an (*), from which five will be chosen by a draw in the dates signaled with a dot (•). Between the six grades of quizzes and debates the worse will be removed at the end of the semester. The percentages that will be used to obtain the final grade in the course are:

Activity	*Percentage*
First Partial Evaluation	25%
Second Partial Evaluation	25%
Final Exam	25%
Quizzes and Debates	25%

Table 1: *Activities and percentages of each evaluation*

Work on problem sets will also be graded with four random quizzes in the problem set sessions during the semester. However, such work is optional and will only determine the magnitude of a bonus of up to 0.2 over the total grade of the course (that would correspond to a grade of 5.0 in the problem set sessions).

This Course will have minimum grade guarantee as follows: if the average of the final grade of the course is less than 3.75, all final grades will increase in the same amount so that the average grade of the course is 3.75. If the average grade of the course is more than 3.75, there will be no curve. When the 30% (or more) of the grades is published, if the average of the grades of the course is less than 3.75, all grades will increase in the same amount so that the average grade of the course is 3.75. If the average grade of the course is more than 3.75, there will be no curve.

If there is a mistake in the grades, it will be fixed. But only written complaints will be accepted during eight (8) working days following the date in which graded material is made available to the students and announced in class and/or through e-mail. In the case of partial evaluations, only complaints from students who attend the correction of the partial evaluation questioned will be accepted. In order to avoid unjustified complaints, if a given grade is above the appropriate grade, the grade may be adjusted downwards with regard to the initial grade given.

If a student cannot present a partial evaluation or the final exam, only medical excuses verifiable by the Department of Economics will be accepted. If an excuse is accepted by the Department, the grade in the missed evaluation will be obtained according to the relative performance of the student in the rest of the evaluations of the course.

7 Approximation System for Final Grade

The final grades of the course will have no approximations at the end of the semester.

8 Miscellaneous

The use of computers, tablets, cellphones, smartphones and other electronic devices that allow multitasking is not permitted in this class. All electronic devices that fit into this category must be turned off before entering the classroom, and remain off until the class is finished and the student leaves the classroom.